

A Firm Level Critical Analysis of the Role of Privatisation in Economic Growth

Yashovardhan Singh*

Hindu College, University Of Delhi

Abstract

The aim of this paper is to understand the impact of privatisation on growth. It aims to survey the lived experience of several countries and attempts to dissect privatisation's effect through the microeconomic framework of an individual firm and its indicators before and after privatisation by using statistical techniques such as hypothesis testing and Analysis of Sample Mean Difference method. This paper also highlights the lack of uniformity in evidence regarding privatisation over the several years of research. It concludes by suggesting relevant policy alternatives in the Indian context with respect to privatisation.

JEL Classification: L33, O12

Keywords: Privatisation, Economic Growth, Disinvestment, Deregulation

*Corresponding author's email address: yasho20198@gmail.com

1 Introduction

There is a vast literature on the effects of privatisation on several economies. It is commonly believed that privatisation leads to better efficiency due to competition between firms and this competition also maximises the utilisation of resources, and henceforth should be embraced by all economies alike. This rationale has led to several developing countries, including some dirigisme economies, adopting it to some degree. However, though there is enough literature advocating the need for privatisation, the academic research on the real effects on the economy post-privatisation, is relatively less. This paper is an attempt to review and analyse precisely that.

Though there are different theories of privatisation and various economists define it differently, for this paper, the author adopts a broad definition of privatisation which is as follows, “privatisation may be considered any material transaction by which the state’s ultimate ownership of corporate entities is reduced”. It generally entails three aspects which are: denationalisation (selling state-owned assets), deregulation (introduction of competition into statutory monopolies), and contracting out production of state-owned goods to the private firms (Kay & Thompson 1986).

Most of the neoliberal developed economies of the Global North have embraced privatisation to heal the “ailing and overblown” public sector industries and to “reform” these industries to improve services to the taxpayers and general public. The developing nations, on the other hand, face a disturbing dilemma of introducing privatisation as international financial institutions such as the World Bank and IMF want these states to make “structural adjustments” which shrink the role of the State before they provide development loans (Letza et al., 2004). The process of Privatisation first started with the Thatcher government and soon spread to different parts of the world as one of the defining features of capitalist, right-wing governments.

Primarily, mainstream economic literature provides two fundamental differences between the public and private sectors (Haskel & Szymanski 1992):

Objective: The objectives of a public sector vary widely, including but not limited to profit maximisation. Since the objectives are decided by the government, whose main aim is re-election, the objectives also include worker and producer benefits, as well as consumer benefits, all of which comprise the electorate. The private sector firms on the other hand have the sole motive of profit maximisation.

Constraints: Private firms aim to maximise their objective under the constraint of a bankruptcy threat, while the state-owned firms, do not function under any such constraint due to the financial support extended to them by the State. These two differences are commonly used to characterise and compare the efficiency of the public and private sectors.

When a government decides to privatise, it can be because of a myriad of reasons such as revenue generation, the political climate, or because of ideological purposes. However, the major arguments that are used against privatisation are that complete privatisation will include a

loss of PSUs that are strategically important to the country, profit channelisation abroad in case of privatising to a foreign investor, and most importantly, the fall in employment that follows privatisation. Therefore, a major debate that is centred around the discourse on privatisation is that the government has ‘no business being in business’ implying that the State is inherently inefficient in proper management of companies as it cannot possibly foresee the market forces of demand and supply and take appropriate action.

While privatisation has its advantages and disadvantages, the link between economic growth and privatisation was established, rather later. The justification for economic growth due to privatisation was based on the microeconomic foundations such as better performance due to incentives and ideas of profit maximisation in private firms caused by the role of the invisible hand (Cook & Uchida 2001). The prevailing narrative for transfer from public ownership to private ownership was that state-owned firms generally pursued objectives other than profit maximisation. These SOEs were portrayed as irresponsible, depending on government support and most importantly poor performers ‘undervaluing the potential of these firms’. In such a situation publicly-owned enterprises crowded out private enterprises in their access to credit and erected statutory barriers to preserve the monopoly status of publicly-owned enterprises. It was argued that the net effect of a change in ownership from public to private would be improved economic efficiency and over time an increase in investment (Cook & Uchida 2001).

In the case of India, privatisation began in 1991 and since then it has been adopted in varying degrees. Generally, privatisation in the Indian context has taken the following forms (Sapat 2007):

Greenfield Privatisation: This procedure is also called ‘parallelisation’ by some Economists. It was adopted in India in the initial period of its privatisation when industries that were strictly reserved for the government were opened up for the private sector to participate and introduce competition. Sectors, where this has been applied, are automobile manufacturing, power, aviation, infrastructure development, telecommunication services, and television. The telecommunications sector had been relaxed to introduce private players and the airline sector, which just had one player at the time of independence- Air India that was owned by the Government of India, today has more than five players, all because of this parallelisation introduced by the government of India.

Marketization: This included the introduction of ‘performance contracts’ known as MOU or Memorandum of Understanding to increase government efficiency and make the SOE more business-oriented. Between 1990-1993, approximately 120 PSEs signed or were identified to sign MOUs.

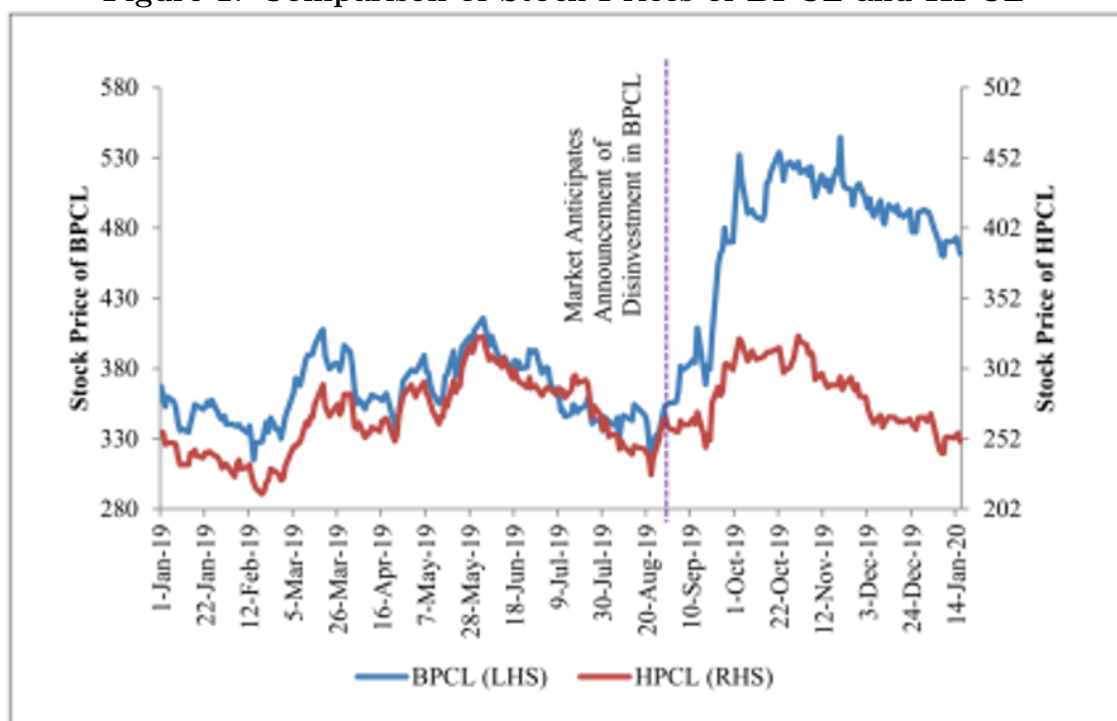
Disinvestment: This measure involves the sale of all or part of the company to private investors and can also include the formal liquidation of the public sector enterprise, leading to its dissolution.

Budgetary Constraint: This was adopted in India to mitigate the popular perception that PSU cannot function effectively due to the financial support they get from the State. There-

fore, budget cuts were introduced so that these firms do not receive privileges, subsidies, grants, etc. which helps them compete in the free market to improve efficiency. For example, earlier Sick Industrial Companies were referred to the Board for Industrial and Financial Reconstruction (BIFR), for suggesting a restructuring plan. BIFR has now been dissolved and this work is being done by NCLT under the Companies Act, 2013 and Insolvency and Bankruptcy Code, 2016. Further, the Board for Reconstruction of Public Sector Enterprises (BRPSE) was created in 2004 to advise the Government on the restructuring or revival plan of referred CPSEs. However, the same has been wound up in November 2015. Thereafter concerned administrative Ministries/ Departments are responsible to monitor the sickness of CPSEs functioning under them and take timely redressal measures with the approval of the competent authority.

The Economic Survey of India (2019) also argues that since stock markets are considered as an index of the present value of future cash value, they highlight the case of BPCL which received huge gains in the stock market post an announcement of privatisation in comparison to HPCL which was performing similarly to BPCL before this announcement. According to the survey, these companies would most likely perform better under private control due to factors like technology up-gradation and efficient management practices; thereby creating wealth and adding to the economic growth of the country.

Figure 1: Comparison of Stock Prices of BPCL and HPCL



Source: Indian Economic Survey (2019)

In this background context, privatisation is being aggressively proposed as the best mechanism to revive the ailing CPSEs and ensure economic growth. However, as we will see ahead, this analysis is not completely error-free.

However, before proceeding further, it is important to define the variable ‘growth’ in this paper. ‘Growth’ here explicitly implies ‘Economic Growth’, that is the growth in variables like output or income in the real terms as well as the impact on the operating efficiency and the ‘return on capital’ as the literature suggests these to be the most important factors in determining efficiency, which is important for our analysis to determine the ‘Economic Growth’. It must also be mentioned that any attempt to understand the change in economic growth due to ownership change is complicated by the fact that economic growth can exacerbate or improve due to several ‘unquantifiable’ factors which contribute to the growth of a firm.

2 Literature Review

Private industries are assumed to be intrinsically advantageous when compared to public sector industries, especially in the West. This popular perception has led many of the developing industries to adopt “reform policies” which consist mainly of privatising public sector enterprises (Megginson & Sutter 2006).

2.1 Impact on Output and Employment

Megginson & Sutter (2006) create a compilation of a myriad of the studies that took place to analyse privatisation in different industries of different countries as well as their impact on real variables of the economy such as output and employment. According to them, almost all the studies documenting the post-privatisation effect on the firms record a ‘significant increase’ (Megginson & Sutter 2006) in output, efficiency, capital investment spending and profitability and therefore suggest that privatisation should be adopted. However, there is significant variation in estimating the impact of privatisation on employment. The majority of the studies surveyed, excluding a few, recorded a drop in the employment level of these firms, and sometimes, the magnitude of this decline is massive. While the reason behind this has not been elaborated by the paper, it safely concludes that privatisation does not automatically mean worker layoffs by the former SOEs, though that does happen generally, until there are no sudden huge gains in revenues to offset the cost of maintaining such large workforce.

Pollitt & Smith (2002) use a social cost-benefit analysis method to record the post-privatisation performance of the British Railways, one of the first big experiments of privatisation. They use the methodology adopted by Jones et al. which is based on the total change in welfare resulting from privatisation and secondly, its impact on three stakeholders: consumers, producers and the government. They conclude that during the period of British privatisation, the output of the industry grew drastically and significantly. In terms of efficiency, post-privatisation, the per unit cost fell sharply by around 2.7% per annum whereas before that it rose around 1% per annum. Therefore, in their opinion, private railways are slightly more efficient than public railways (Pollitt & Smith, 2002). They also argue that output quality is no less, and in fact, is probably better and that consumers gained considerably more in the private railways than before that, such that the safety statistics suggest that privatised railways continued to show declining risks of accidents at a faster rate as compared to public railways. The paper made a significant observation by concluding that a private

structure where the shareholders demand a return on their investment, generally leads to enhanced efficiency, which, according to them, is yet to be recorded by structures under government ownership.

However, Haskel & Szymanski (1992) create a model of a firm's transfer from the public to the private sector. The paper observes that when entering into a privatised field, an SOE is placed under superior monitoring which forces it to reduce costs, thereby increasing profits. It models the cost of a firm explicitly as wages of the workers based on the bargaining theory of wage determination. Another assumption is that private firms are under regulation and there is no asymmetric information while bargaining, either in the public or in the private sector. According to them, the main driving difference between a private and a public firm is that of objectives and constraints. Their model predicts output, employment and wages fall, whereas profits rise when the objectives of a firm become that of profit maximisation. They also hypothesise, through their model, that the fall in wages majorly explains the rise of profits of a private firm. They employ data from 17 firms that were publicly owned and observed that the results of their model were consistent with the data they analysed.

2.2 Implementing Privatisation: Complex Calculus of Economics and Politics

Though these papers study the theory of privatisation by examining the empirical evidence, there is a significant difference in the method and region of implementation as well. Bortolotti et al. (2001) generates evidence from a panel of 34 countries over a two-decade period from 1977-99, suggesting that privatisation works better typically in wealthy countries (presumably of the first world) that are endowed with liquid stock markets. Their initial empirical analysis suggests that privatisation is characterised by high public debt. In most of the developing countries, more often than not, privatisation is preceded by high government debt, and the governments expect that the windfall revenue gain will help them square off public accounts. They also find theoretical evidence that privatisation is a tool for the right-wing parties in power to help diffuse what they term as "popular capitalism", achieving the political objective of garnering support for a market economy. They also suggest, based on empirical evidence, that the extent of privatisation varies across countries mainly due to the development of stock markets. The size of the issue of an SOE is directly proportional to the liquidity of the stock market as it helps governments absorb more revenue at once (Bortolotti et al. 2001).

Estrin & Pelletier (2015) studied the impact of privatisation in Sub-Saharan Africa where it happened in successive waves, with some countries being privatised before the others. They also incorporate data regarding privatisation in South Asian countries and conclude that in developing countries, privatisation alone does not generate economic benefits. The success of privatisation, they claim, depends more importantly on the regulatory framework under which it would be monitored and executed, especially in third-world developing countries where the lack of such regulatory agencies can lead to monopolisation and a decline in consumer welfare. They also note that in developing countries, some of which are transition economies, privatisation alone cannot enhance company performance. They state that the

institutional and business environment in which privatisation takes place plays a crucial role in determining the enhancement of a company's performance. In countries where the legal system does not function effectively and there is a high level of corruption, private ownership on its own, cannot determine a better company performance. They further segregate the privatisation experience of developing countries according to different sectors. They cite Clarke et al. (2005) to show that in the case of the banking sector, privatisation has mostly and majorly improved the performance of the banking firms. They also note that in this case, full privatisation has turned out to be more beneficial than partial privatisation and they cite evidence from Brazil, where denationalised banks that were fully privatised performed better than those in which the government retained minority shareholding. However, the evidence is not so succinct in the case of privatisation of the utility sector. In the case of telecommunication, for example, they note that while privatisation is related to decrease in costs and an increase in per capita access, it is negatively correlated with 'connection costs' and that it works only in the presence of a strong and independent regulatory agency (Estrin & Pelletier 2015). In the case of other utilities such as electricity, they concluded that there was no evidence that privatisation leads to improved labour productivity, or higher capital utilisation, or higher output, until and unless there is no strong and independent regulator.

2.3 Privatisation and the 'Myth of Efficiency'

While all these studies unanimously affirm that privatisation brings efficiency, Letza et al. (2004) aim to deconstruct this 'myth of efficiency' by researching several empirical and theoretical evidences. They note that efficiency has nothing to do with privatisation and rather it mainly depends on the organisation and functioning of the firm. They quote evidence from Australia and Queensland showing that the public sector can achieve better 'economic efficiency' than the private sector if there is enough supervision. They cite a study of 12 public sector companies that were privatised in the 1980s and record that privatisation had little to no role in their economic growth and that there was no strong correlation between privatisation and labour productivity. There is repeated emphasis on 'imaginative restructuring' to enhance the accountability of the employees and suggests that public sector outcomes can be improved solely by adopting this rather than privatising these firms and expecting them to achieve public sector outcomes. They make a stark and quite unpopular observation by claiming that 'privatisation is not the panacea' and in fact, suggest that it has not been very successful in developing countries. The paper suggests that one of the reasons for the conflicting results between these cross-sectional studies could be methodological bias, in that, the good performance of the private firms might not be due to privatisation but instead, due to the boom of the business cycle. Data selection could also pose another problem. They cite a study (Martin and Parker 1995) that examined 11 firms over five different periods ranging from nationalisation, pre-privatisation, the announcement of privatisation, post-privatisation and a recession over two factors: profitability and value-added per worker over the value-added economy and stated that the hypothesis "privatisation is unequivocally more efficient than nationalisation" is difficult to accept.

Similarly, Naguib (2009) also studies the effect of privatisation on economic growth in Argentina from 1971 to 2000. The paper creates a time series error correction model from

1971 to 2000 (the advantage of such a model being that it combines short-run and long-run economic growth) and understands whether privatisation was a ‘success’ in Argentina as the World Bank claims. Since Argentina privatised almost all of its SOEs, based on the findings of the previous papers, one would expect that privatisation had a positive effect on the Argentinian economy. Naguib (2009), however, reports the opposite. He found that privatisation had long-run negative effects on the economy of Argentina, mainly because of the pace with which it was implemented and at the same time, any regulatory agency was absent. The initial regulatory agencies were established in 1990 after two of its biggest industries, airlines and telephone were already privatised. The paper also argues about the fact that economic growth is generally achieved by privatising the manufacturing sector, whereas, in Argentina, 89% of the total privatisation investment was in the energy and infrastructure sector (Naguib 2009), possibly because of its resource abundance. However, it is important to note that the analysis made by Naguib (2009) cannot be directly implemented to study the impact of privatisation on other developing countries as the time series model falls short on certain aspects. For instance, this model cannot be used to compare the effect of privatisation on different countries. Furthermore, while the results are true for Argentina, the model might not hold the same results for other developing countries because of the differences that arise due to country-specific differences.

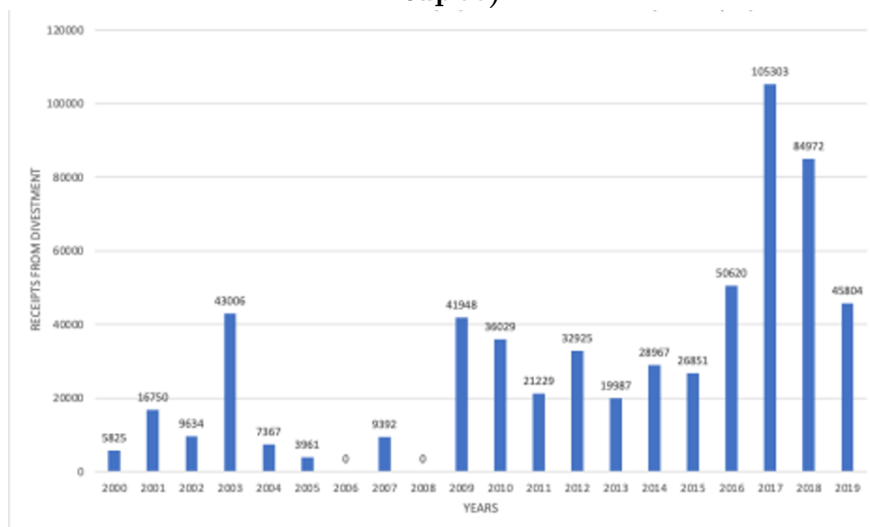
3 Research Methodology and Data Analysis

To understand this impact of privatisation at a more intensive firm-level analysis, the author takes the case of Paradeep Phosphates which was privatised in 2002. The author generates a convenience sample of 12 years, such that the sample has data of 6 years before privatisation and 6 years after privatisation. (Meher and Sahoo, 2011). To eliminate the inflation effect, the ratios are calculated using indexed values rather than actual values. Before privatisation, the base year is taken to be 1996 (The first year of the sample before privatisation) and for after privatisation data, 2002 (The first year of the sample post-privatisation) is taken as the base year. A T-test hypothesis on the mean difference before and after privatisation is then performed. The means taken is that of two ratios which are the PAT (Profits After Tax) ratio to understand the difference in operational efficiency post-privatisation and NCA (Net Current Assets) ratio to understand the long-term financial position.

Profit After Tax refers to the amount that remains after a company has paid off all of its operating and non-operating expenses, other liabilities and taxes. This profit is what is distributed by the entity to its shareholders as dividends or is kept as retained earnings in reserves.

Net current assets are the aggregate amount of all current assets, minus the aggregate amount of all current liabilities. There should be a positive amount of net current assets on hand since this implies that there are sufficient current assets to pay for all current obligations. If the net amount is negative, it could be an indicator that a business is having financial difficulties, and will need additional funding fairly soon.

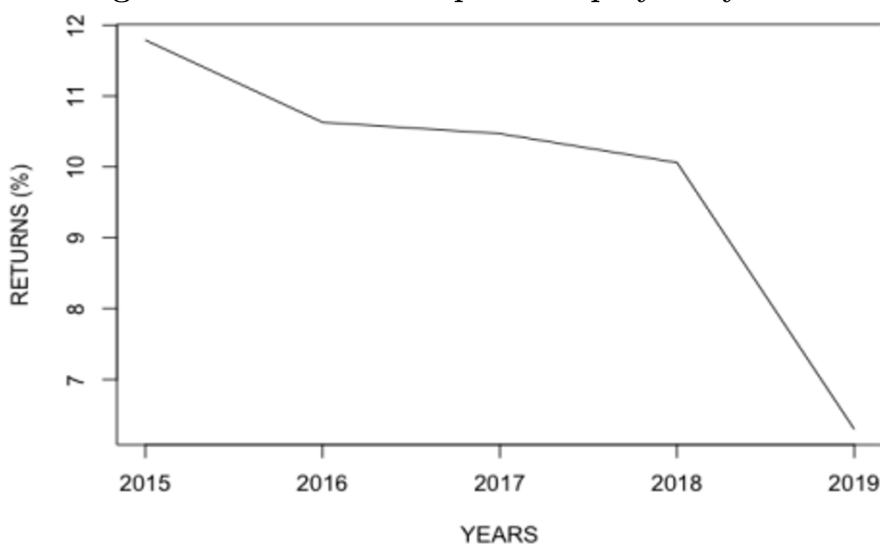
Figure 2: Inflation-Adjusted Total Receipts (CR) from Disinvestment (2019 Rupee)



Source: Author’s Visualisation from the DPAM Report.

Data from Public Enterprises Survey suggests that between 2014-18, the proportion of contractual and casual workers increased from 36% to 53% and the number of regular workers declined from 9.5 lakh in 2014 to 7.1 lakh in 2018 (Mathew 2020). This data has been recorded in the backdrop of record privatisation by the government in that period, suggesting that there is a negative relationship between privatisation and employment levels. According to the economist Jayati Ghosh, the explanation for this negative relation is that it has a lot to do with private investors preferring “to begin with less-than-ideal levels of employment to allow for greater flexibility in both the number of workers and the contracts under which they are employed” (Mathew 2020).

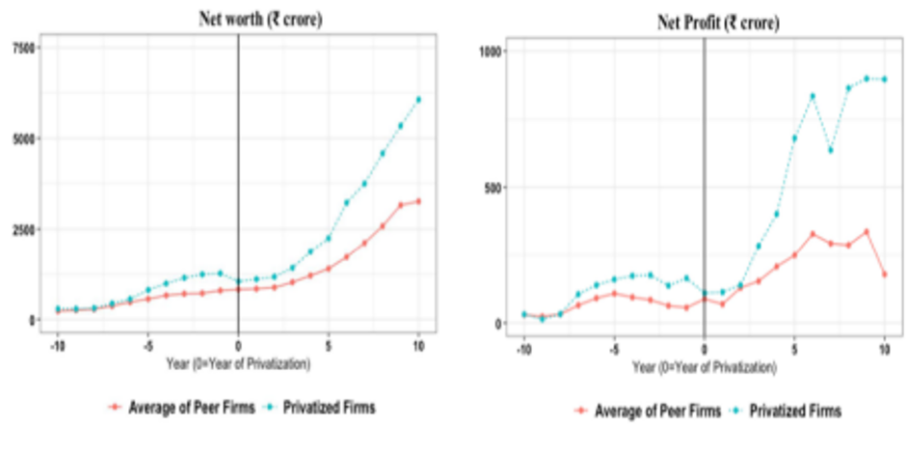
Figure 3: Return on Capital Employed by CPSEs



Source: Author’s Visualisation from the CAG Report.

Return on Capital is defined as the ratio of a company’s earnings before interest and taxes and the capital employed by the firm, where Capital Employed= Paid up Share capital + Free Reserves and surplus + Long term loans – Accumulated losses- Deferred Revenue Expenditure. ROCE is a measure of the company’s financial health, profitability and the efficiency with which it deploys capital. As is clear from the above time series plot, the gross ROCE of all the CPSEs was declining marginally from 2015-18 after which there was a drastic drop in 2019. According to the CAG report, this has happened in the backdrop of these CPSEs employing more capital and still observing a decrease in their annual EBIT. This serves as evidence to the observations made by several papers that Public Sector Enterprises become inherently efficient since the government aims to pursue non-business strategies like retaining employees, infusing high levels of non-necessary capital, etc. to uphold political agendas and completely sidelining the company’s profitability and other financial aspects. This has been true in the case of India as well.

Figure 4: Net Worth and Net Profit



Source: Indian Economic Survey (2019-20).

This time-series data plot of the privatised CPSE firms and their peers which are still under government control highlights the impact of privatisation on a firm level. This shows that before year 0, i.e., the year of privatisation, both kinds of firms have similar performance in terms of net worth and net profit, however, post year 0, there is a drastic and exponential jump in the performance of privatised CPSEs which shows that, at a firm level, privatisation significantly improves net worth and net profit of the firms.

3.1 Hypothesis test results for PAT: Testing Operational Efficiency

$$H_0 : \mu_0 = \mu_1$$

$$H_1: \mu_0 \neq \mu_1$$

Where μ_0 is the mean ratio before privatisation and μ_1 is the mean ratio after privatisation.

The data is as follows, with 1996-97 chosen as the base year to index before disinvestment values and 2002-03 being chosen as the base year after disinvestment values.

Table 1: Profit after Tax Data

BEFORE DISINVESTMENT						AFTER DISINVESTMENT					
1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
100	298	164	8	398	732	100	118	39	1	89	58

Source: Author's calculations.

Results of the T-Test ratio for the mean at a 95% confidence level are as follows:

Table 2: t-Test: Paired Two Samples for Means

	Pre-Divestment	Post-Divestment
Mean	283.333	67.5
Variance	67665.0667	1878.7
Observations	6	6
Pearson Correlation	0.2606	
Hypothesized Mean Difference	0	
df	5	
t Stat	2.0952	
P(T<=t) one-tail	0.0451	
t Critical one-tail	2.0150	
P(T<=t) two-tail	0.0902	
t Critical two-tail	2.5705	

Source: Author's calculations.

Therefore, since the two-tail P value at 0.05 level of significance is 0.09 and P-Value > Level of Significance, the evidence suggests that there is no mean difference between PAT before divestment and PAT after divestment. Thus, there is no statistically significant improvement in the efficiency of the firm, post divestment.

3.2 Hypothesis Test Results for Net Current Assets: Financial position of the Firm

$$H_0 : \mu_0 = \mu_1$$

$$H_1 : \mu_0 \neq \mu_1$$

Where μ_0 is the mean ratio before privatisation and μ_1 is the mean ratio after privatisation. The data is as follows, with 1996-97 chosen as the base year to index before disinvestment values and 2002-03 being chosen as the base year after disinvestment values.

Table 3: Net Current Assets

BEFORE DISINVESTMENT						AFTER DISINVESTMENT					
1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
0	30	55	45	80	90	0	100	200	175	90	157

Source: Author's calculations.

Results of the T-Test ratio for the mean at a 95% confidence level are as follows:

Table 4: t-Test: Paired Two Samples for Means

	Variable 1	Variable 2
Mean	50	120.333
Variance	1090	5298.6667
Observations	6	6
Pearson Correlation	0.5912	
Hypothesized Mean Difference	0	
df	5	
t Stat	-2.8928	
P(T<=t) one-tail	0.0170	
t Critical one-tail	2.0150	
P(T<=t) two-tail	0.0340x	
t Critical two-tail	2.5705	

Source: Author's calculations.

Therefore, since the two-tail P value at 0.05 level of significance is 0.03 and P-Value < Level of Significance, the evidence suggests that there is a mean difference between NCA before divestment and NCA after divestment. Thus, there is a statistically significant improvement in the financial position of the firm, post divestment.

4 Conclusion

The paper aimed to understand if privatisation has a strong impact on growth, using the microeconomic framework of a firm. Based on the data analysis and research conducted, it is clear that there is no unambiguous response to the question and the answers vary according to the different ways the questions are contextualised. The statistical examination of the financials of Paradeep Phosphates suggests that the divestment of the firm led to no statistically significant growth in output but does improve the financial position of the firm in the long term.

To further understand the impact of privatisation on profits, the author cites the results of the descriptive statistics employed by Analysis of Sample Mean Difference technique in the Economic Survey (2019). Based on the results, one can suggest that there is no uniform

positive impact of privatisation. While some firms record an increased gross revenue, a minor group also records a decline. But overall, we see that this approach attributes an increase of approximately Rs. 827.65 crores in gross revenue to privatisation. The Analysis of Sample Mean Difference approach also suggests a significant increase in gross revenue after privatisation suggesting that overall, it has a positive impact on the financial position of the firm.

However, it should be understood that the Analysis of Sample Mean Difference approach also suffers from statistical inaccuracies. For instance, it does not take into account the size of the firms that are taken into consideration. It is highly possible that a huge increase in one of the large CPSEs completely offsets the negative impact that some firms might incur, or overvalue the impact privatisation has on these firms. An important assumption in using the Analysis of Sample Mean Difference technique is that there should be a parallel shift post-intervention in the values of the treatment group to make sure that the impact is certainly due to exogenous policy. However, it is quite clear that in this case, this assumption is violated (Jain 2021). Furthermore, the basket of firms used for comparison will almost always suffer from selection bias until a large-scale study of every single firm or at least a more representative firm representing all the different industries and market capitalisation, gets rid of this bias.

Therefore, this analysis is not completely error-free and fails to capture important background economic events such as deregulation of the economy and the incentives provided to private companies by the government during the phase of promoting privatisation. At the same time, this microeconomic framework of a single firm is not applicable for other firms as well since each has a different divestment experience and large-scale data is required to find some robust evidence.

It has been observed that this standard benefit of ‘enhanced financial position’ due to privatisation lies in the agency of ownership and this entire proposition of “Privatisation improves efficiency” is fundamentally dependent on how agents respond to competition. While this proposition sounds infallible in theory, data suggests that the correlation is not so strong. If the State finds a way to infuse that ‘competitiveness’ and ‘accountability’ into public sector employees, then PSUs can function as well as private enterprises. In reality, privatisation does not lead to growth unambiguously and different countries have had different experiences with privatisation (Megginson and Sutter 2006), precisely because of the political and economic contexts in which they were introduced.

In the Indian context, it is important to note that full privatisation is not the solution to the declining efficiency of the CPSEs. The government should instead, focus on better alternatives such as MOUs, budget constraints, etc. If at all it decides to completely privatise, then first the government should make sure that it proposes legal amendments to make sure that the government regulators, especially in the utility sector are strong and independent, not just on paper but in practical application as well.

The privatisation project in India is standing on the knife's edge with so many CPSEs lined up for complete privatisation with no focus on attempts to enhance the efficiency or to improve and create regulatory agencies to avoid market failures such as monopoly or price explosion in sectors with inelastic demand, as was the case in Argentina.

To conclude, the Indian PSU performance revival must incorporate a more structured approach involving categorisation of firms into different groups according to past performance, future profitability, revival chances, etc. The choice of policy tools should be customised according to these categories and segments. This would mean that privatisation with proper regulatory provisions would be introduced only for some firms with no further scope of revival, whereas for others strategic disinvestment and other procedures discussed above would be the more viable and desirable policy option. Mere reduction of the solution to complete privatisation would indicate the laxity of the State as well as the narrow lens through which public sector enterprises have been evaluated over the past, due to limited research and theories lacking evidence of long- term impacts (Jain 2021).

References

- [1] Bortolotti, B., M. Fantini, and D. Siniscalco (2004). Privatisation around the world: evidence from panel data. *Journal of Public Economics* 88(1-2), 305–332.
- [2] Cook, P. and Y. Uchida (2001). Privatisation and economic growth in developing countries. Technical report.
- [3] Estrin, S. and A. Pelletier (2015). Privatisation in developing countries: What are the lessons of recent experience?
- [4] Haskel, J. and S. Szymanski (1992). A bargaining theory of privatisation. *Annals of Public and Cooperative Economics* 63(2), 207–227.
- [5] Jain, R. (2021). Privatisation and the indian state. *Economic and Political Weekly* 56(18).
- [6] Kay, J. A. and D. J. Thompson (1986). Privatisation: a policy in search of a rationale. *The Economic Journal* 96(381), 18–32.
- [7] Letza, S. R., C. Smallman, and X. Sun (2004). Reframing privatisation: Deconstructing the myth of efficiency. *Policy Sciences* 37(2), 159–183.
- [8] Mathew, N. V. (2020). Analysing the case for privatisation in the indian railways. *SPRF Discussion Paper*.
- [9] Megginson, W. L. and N. L. Sutter (2006). Privatisation in developing countries. *Corporate Governance: An International Review* 14(4), 234–265.
- [10] Meher, K. C. and D. Sahoo (2011). Privatisation - a study of private ownership. *International Journal of Management and Science* 2(1).
- [11] Mishra, A. K., K. Narendra, and B. P. Kar (2013). Growth and infrastructure investment in india: Achievements, challenges, and opportunities. *Economic Annals* 58(196), 51–70.
- [12] Naguib, R. I. et al. (2009). The effects of privatisation and fdi on economic growth in argentina. *EEFS 8th Annual Conference*.
- [13] Pollitt, M. G. and A. S. Smith (2002). The restructuring and privatisation of british rail: was it really that bad? *Fiscal Studies* 23(4), 463–502.
- [14] Sapat, A. (2007). Privatization, democracy, and the state in india. Florida Atlantic University.